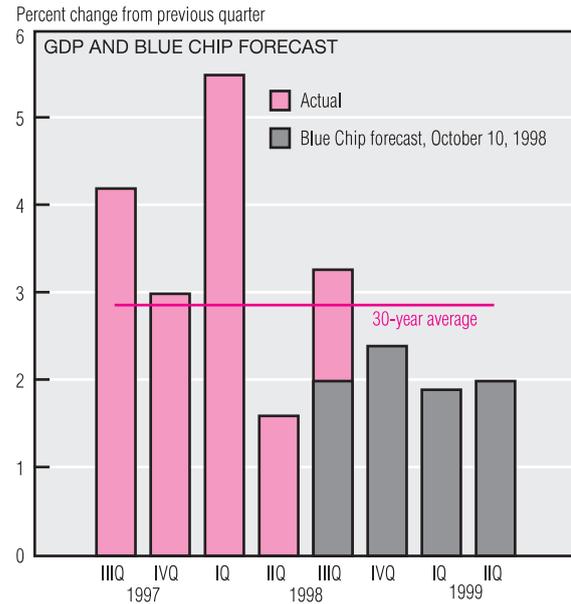
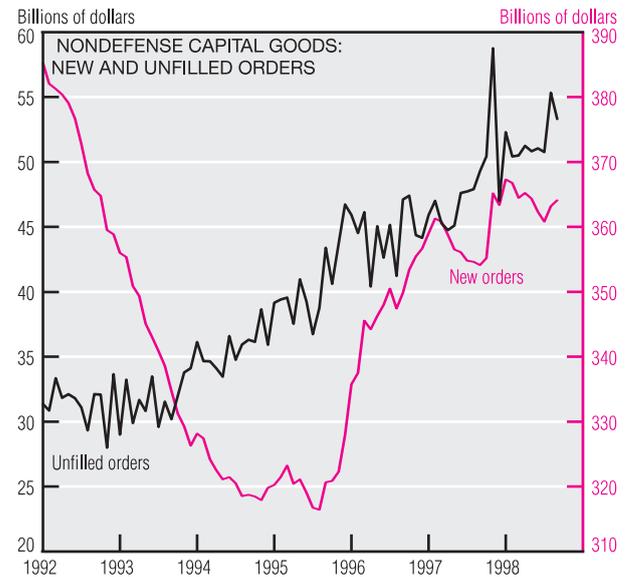


Economic Activity

	Change, billions of 1992 \$	Percent change, last:	
		Quarter	Four quarters
Real GDP	60.9	3.3	3.4
Consumer spending	49.1	3.9	4.7
Durables	0.0	0.0	7.3
Nondurables	8.7	2.3	3.6
Services	38.6	5.5	4.7
Business fixed investment	-2.3	-1.0	8.6
Equipment	2.0	1.0	13.3
Structures	-3.3	-6.4	-3.2
Residential investment	5.2	6.9	11.3
Government spending	4.6	1.4	0.8
National defense	3.1	4.2	-2.2
Net exports	-17.3	—	—
Exports	-7.1	-2.9	-2.3
Imports	10.2	3.4	8.6
Change in business inventories	19.0	—	—



	Actual	Predicted	Difference
	1998:IIIQ	1998:IIIQ	
GDP	7,559.5	7,536.1	23.4
Personal consumption expenditures	5,179.3	5,170.0	9.3
Change in business inventories	57.2	36.3	20.9
Net exports	-262.5	-265.9	3.4
Fixed investment and government spending	2,585.5	2,595.7	-10.2



a. Chain-weighted data in billions of 1992 dollars.

NOTE: All data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census; and *Blue Chip Economic Indicators*, October 10, 1998.

GDP growth was surprisingly strong in the third quarter of this year, at least if the 3.3% advance estimate is compared with the October Blue Chip consensus forecast of only 2%. Growth for the entire year still might meet the 3.4% consensus forecast if the third-quarter estimate is not revised and fourth-quarter growth is no less than about 3%. Forecasts of 1999 growth, however, apparently are not being marked up from the range of 2% or so.

The unexpected strength of the economy last quarter was mostly in

consumption spending and inventory accumulation. With relatively steady growth in real disposable personal income as well as in spending on services and nondurable goods, recent variations in the consumption portion of GDP have reflected changes in durable goods purchases. A sharp decline in July, associated with the General Motors strike, was offset by increases in the next two months, with no net growth in the third quarter.

It is impossible to say whether the third-quarter spurt in inventory accumulation was intended or unin-

tended. September inventory data are not yet available, so there is no reliable basis for judging movements of inventory components. Preliminary GDP estimates (to be released in late November) might even tell a different inventory story on the basis of September data.

Unexpected strength in consumption and inventories more than offset some unexpected weakness in the combination of fixed investment and government spending. (The further deterioration in net exports was actually less severe than anticipated.)

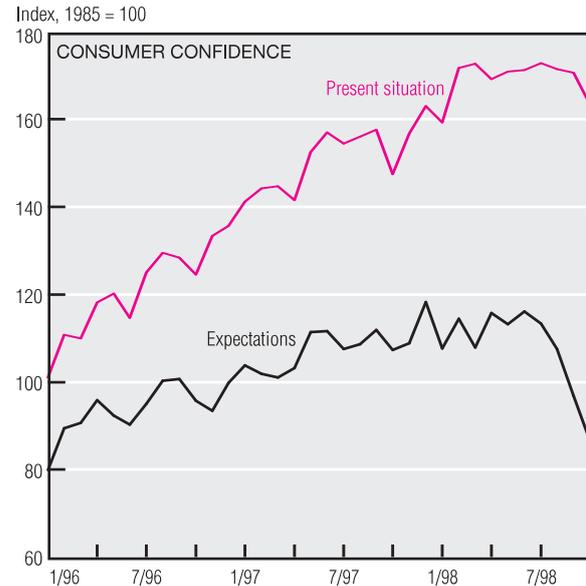
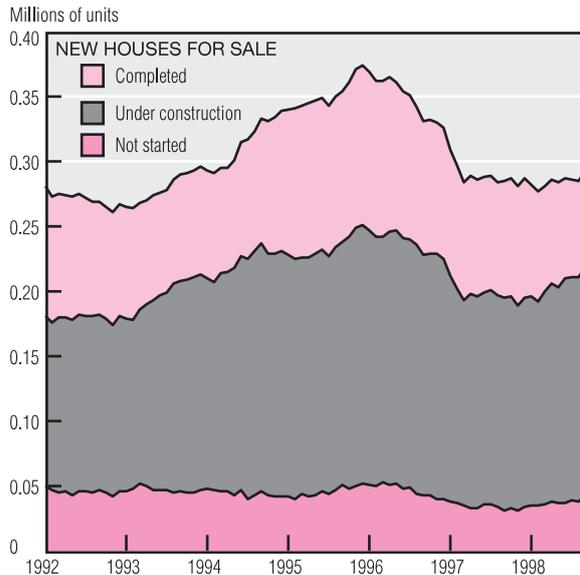
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Economic Activity (cont.)



Residential Vacancies (thousands of units)

	1997:IIIQ	1998:IIIQ	Percent change
All nonseasonal housing units	112,446	114,000	+1.4
Vacant	10,013	10,508	+5.0
For rent	3,018	3,120	+3.8
For sale only	1,062	1,208	+13.7
Other	5,933	6,180	+4.2



NOTE: All data are seasonally adjusted except residential vacancies.

SOURCES: U.S. Department of Commerce, Bureau of the Census; Board of Governors of the Federal Reserve System; and The Conference Board, Inc.

More troubling is weakness in the combination of fixed investment and government spending relative to expectations (not specified in the Blue Chip quarterly consensus forecast). Nonresidential fixed investment dipped slightly. Spending on nonresidential structures declined for the third consecutive quarter. Expenditures on producers' durable equipment, which had slowed sharply in 1998:IIQ, dropped even more sharply in 1998:IIIQ. Residential investment advanced at less than half the pace of the year's first two quarters, though still at twice the rate of GDP.

Quarterly investment data can be highly variable, making any conclusion premature, but it is clear that without a return to a growth trend, investment spending no longer would support future economic expansion. Recent patterns of monthly new and unfilled orders for nondefense capital goods provide no clear basis for expecting fixed investment to deviate from recent years' growth trend. But the plateau in industrial production and the more-than-year-long decline in capacity utilization might raise doubts about a continuation of the growth trend.

The slowdown in residential investment seems consistent with other housing market indicators. Vacancies have been growing faster than the number of housing units over the past year. This is especially evident in the "for sale" market, where vacancies have increased 13.7%. Excess supply is not yet evident in the number of completed houses standing vacant, but there has been an increase in the numbers of those under construction and those not yet started.

Consumer confidence, especially as measured by expectations for the future, dropped again in September.